NORTHLANDING
Financial Partners, LLC

Quarterly Model Portfolio Update

April 22, 2019

U.S. Economy & Financial Market Observations

In the first quarter, U.S. stocks and many financial markets around the world notched unusual gains, completing their best calendar quarter since 2009. Rebounding from the equally adverse conditions in the 4th quarter of last year, the S&P 500 spiked up **13.7%**. International markets surged **10.3%** and interest rate sensitive assets rose with the Barclays U.S. Aggregate bond index finishing up **2.9%**. Interest rate sensitive stocks also fared particularly well, led by the MSCI U.S. REIT Index, which rose **15.9%.**

The dramatically seesawing market conditions we've experienced during the past six months pivoted in early January with a significant change in stance from the Federal Reserve. Rather than hiking interest rates further and threatening economic growth, Fed Chair Jerome Powell assured the markets that the Fed would halt its effort to tighten financial conditions. This relatively abrupt policy U-turn culminated on March 20th with the Fed announcing that it planned no interest rate hikes for the balance of 2019.

There were other positives for markets as well: The federal government shutdown which had started to weigh on sentiment, ended in late January. Signals from the U.S.ïChina trade talks also turned progressively more positive during the quarter, although they have yet to produce definitive results. Most leading economic fundamentals have remained solid, signaling a modest slowdown in the economy, instead of a recession. Baseline GDP growth appears to be running near 2.6% for the first quarter of 2019 ï a slowdown over 2018ôs pace, but not a reversal. The Conference Board, which compiles the Leading Economic Index (LEI) which consists of 10 components that are predictive of economic activity (or recessions) recently stated that ñfalling domestic headwinds will likely keep growth above its long-term trend.ò

Yet one of the most watched Leading Economic Indicators, the shape of the yield curve, recently garnered significant attention from markets. The yield curve is said to be ñinvertedò and signaling recession risk when interest rates on short term bonds exceed the yield on the 10-Year Treasury. On March 22nd, the 3-month/10-year yield did indeed invert for 5 trading days, causing some wo l markets. he P dro ed a out . from its intrada high during that rief eriod. e would note that Cam ell ar e , the uke ni ersit finance rofessor whose research first showed the redicti e ower of the ield cur e in the mid s stressed that an in ersion must last, on a erage, a full three months efore it can credi l said to e sending a clear signal a out recession risk.

hile, e entuall , a recession is ine ita le, the alance of e idence doesn t oint to one eing imminent. nal sts and short term traders ha e ecome h ersensiti e to an signs a recession ma e looming, articularl with the recent, al eit tem orar , in ersion of the ield cur e. he in esting u lic has also taken notice. oogle rends show that oogle searches for the word recession ha e um ed o er the last si months ersus the rior fi e ears.

Index	2019 Q1 Total Return
S&P 500 Composite	13.65%
DJ Industrial Average	11.81%
NASDAQ Composite	16.81%
S&P Mid-Cap 400	14.49%
Russell 2000	14.58%
MSCI ACWI Ex U.S.	10.31%
FTSE Emerging Markets	10.41%
MSCI U.S. REIT	15.92%
Barclays U.S. Aggregate Bond	2.94%
Barclays US Corporate High Yield	7.26%
Barclays Global Agg. Bond ($ hedged)	2.99%
Barclays Global Agg Bond (Unhedged)	2.20%
Barclays Municipal New York Exempt	2.86%
Barclays Municipal	2.90%
Bloomberg Commodity	5.70%

(OVER)

Quarterly Model Portfolio Update (Continued)

Current Portfolio Stance & Outlook

With no disrespect to any of the financial media, because the market itself is forward-looking in nature, “If it’s in the paper, it’s already in the price." As markets have corrected, valuations have also become more attractive, with the forward price-to-earnings ratio recently at 14.9 times earnings, a level modestly cheaper than average over the last 25 years. While a volatile market that is “modestly cheaper than average” may not seem incredibly attractive, consider the following points as evidence that the most probable course to success is staying invested in a diversified portfolio:

- 4 out of 5 times (or 80% of the time) when market indexes have corrected between 10-20%, they have not turned into bear markets.
- The year following a mid-term election has been, historically, one of the best periods to invest with the S&P 500 up 15% on average during this period since 1950. (This may prove to be particularly relevant in 2019 in a pre-Presidential election year with extra incentive to resolve the trade war and enact pro-growth policies before the next election.)
- Since World War II, the average S&P 500 return in the 12-months following a -10% decline has been 15.94%.

Our most recent October portfolio rebalancing was completed after a significant first leg of Q4 volatility. It marked the 4th time in the last two years that we had harvested profits from primarily equity positions. Though, we did evaluate portfolio weightings closely again in January to determine if an out-of-cycle rebalancing was warranted, the late December and early January rally left Core Model Portfolios very near their target asset weighting.

While no immediate trading activity occurred, it’s worth noting that Core Model Portfolios had gradually been prepared to weather volatility over the past two years. In analyzing our current stance, we find several areas of portfolio positioning that may allow for rebalancing opportunity as we continue to monitor our asset weightings:

- We maintain lighter exposure to small and mid-cap stocks that can be most economically sensitive to a further downturn.
- Our addition to real estate in April was a positive for Core Model Portfolios – after turning in a dismal first quarter, the MSCI US REIT Index had a positive total return of 1.34% during the last nine months of the year even given the 4th quarter downturn.
- Core Model Portfolios remain very lightly weighted in high yield corporate bonds. With corporate debt levels near record highs, concentration in higher quality bonds remain our best ammunition to take advantage of any further downward volatility that may occur.

Practically speaking, we have many uncertainties in today’s financial markets (but we always will). We believe your portfolio remains well-positioned to face the reality of this uncertainty, guided by investment principles that will continue to serve you well. As always, we encourage you to look through that uncertainty and focus on the controllable: your personal economic planning with your NorthLanding advisor. We welcome any questions on this update or your situation before our next personal review.

NorthLanding Financial Partners, Investment Direction Committee

NorthLanding Financial Partners, LLC
We are committed to empowering our clients to discover and direct action toward their most important financial goals. Our advisors have over 100 years of combined experience and advanced credentials in counseling clients to develop and implement strategies to meet their personal and family financial objectives.

We welcome your feedback!

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1. Investment index and NLFP portfolio performance data through 12/31/2018 is provided by Morningstar and believed to be accurate as of the date of this publication, gross of any advisory fees. Other sources include the Wall St. Journal, FactSet Research, and Strategas. All investment strategies including diversified asset allocation have risk. Past performance of our investment approach, and component holdings does not guarantee future results. Advisory services are offered through NorthLanding Financial Partners, LLC, ("NLFP") Registered Investment Advisor. While all data is believed to be from reliable sources, accuracy and completeness are not guaranteed.